

# Fraud Awareness Newsletter

Volume 97-08

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**Courtesy of the  
Department of Defense  
Office of the Inspector General  
Defense Criminal Investigative Service  
Central Field Office**



This newsletter is intended to enhance your awareness of fraud involving the Department of Defense (DoD) and what is being done about it. By being better informed you will be better able to help us combat these illegal activities. These articles are based on press releases and public information.

## **Prosecutions Kickback**

An indictment against Richard G. Schulte and Frank G. Schulte, general contractors at Fort Leonard Wood, MO, was unsealed. Each was charged with conspiracy to defraud the Government. The Schultes allegedly provided a \$30,000 kickback in the form of a home remodeling job to an employee of a prime Government contractor at Fort Leonard Wood, MO. In exchange, the Schultes received three Government subcontracts totaling \$169,911. Special Agent Edwin Outlaw, Kansas City Resident Agency (RA), is conducting the investigation with the U.S. Army Criminal Investigations Command (USACIDC).

## **Theft and Fraud**

An indictment was returned against John J. McGurr, former director of contract administration, Lockheed Engineering and Sciences Company (LESC), Houston, TX, charging him with three counts of fraud against the Government, three counts of tax evasion and five counts of money laundering. While employed at LESC, McGurr and others were involved in several schemes designed to defraud the Department of defense (DoD) and the National Aeronautics and Space Administration (NASA). Those schemes included intercepting checks sent by other companies to LESC, negotiating them and using the funds for his personal benefit; improper inflation of expenses for office space leased by McGurr on behalf of LESC and charged to the Government; creation of fictitious companies solely for use in the fraudulent schemes; laundering of improperly received monies through various bank accounts and institutions; purchase of real property with the ill-gotten funds and failure to properly report all income generated as a result of these

schemes. At the time of this alleged activity, McGurr was responsible for the development, negotiation and administration of all LESC contracts. Special Agents George Fifer and Lonnie Taylor, Houston RA, are conducting the investigation with the Federal Bureau of Investigation (FBI), the Internal Revenue Service (IRS) and the NASA.



## **Ambulance Service**

An information was filed against Wesley Miller, Jr., former chairman of the board for Big Creek Volunteer Rescue, Squad, Incorporated (Big Creek), War, WV, charging him with conspiracy to commit mail fraud. The information alleged that Miller conspired with others in a scheme to defraud Medicaid by having employees make medically unnecessary ambulance runs, make ambulance runs without emergency medical technicians (EMTs) and having them sign forms for bogus ambulance runs. Big Creek is an ambulance service that operated under Quality Ambulance Services, Incorporated (Quality), War, WV. Big Creek, through Quality, submitted health care claims for pay-

ments to the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) and to Medicaid. Quality handled Big Creek's billing services. The conspiracy included Quality paying Big Creek \$20 for each ambulance run covered by Medicaid, which was then paid to the EMTs and ambulance drivers; Quality paying Big Creek an additional "administrative fee" of \$5 for each ambulance run-- paid for by Medicaid--from which Miller secretly received \$1.50 for each Big Creek ambulance run. Miller is also the former mayor and chief of police of War, WV. Special Agent Randy L. Grover, Columbus RA, is conducting the investigation with the West Virginia OIG Medicaid Fraud Control Unit, Charleston, and the West Virginia State Police Bureau of Criminal Investigations, Bluefield.



### **Kickbacks**

A one count information was filed against Eugene Ellerbe, Brooklyn, NY, charging him with failure to file an income tax return for the 1993 tax year. An investigation of Royce Aerospace Materials Corporation (Royce), Farmingdale, NY, a former DoD subcontractor, resulted in the charge against Ellerbe. Robert Berger, president of Royce, filed for Chapter 11

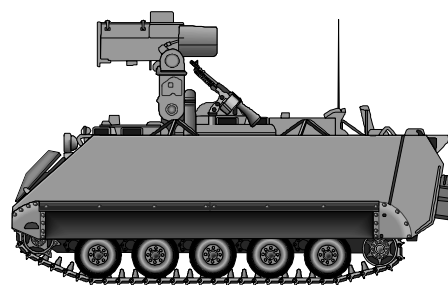
bankruptcy protection in September 1993. Berger then used Ellerbe and others to divert the receivables of Royce from the creditors to himself. Berger would receive payment from Royce customers and give the checks to Ellerbe, instead of depositing the money into a Royce account. Ellerbe allegedly deposited the checks into his savings account, withdrew the cash, kept a percentage for himself and returned the cash to Berger. Berger then used the cash to pay kickbacks to prime DoD contractors. Special Agent Stephanie Jimroglou, New York RA, is conducting the investigation with the IRS.



### **Failure to Test**

Dolphin, Incorporated (Dolphin), Phoenix, AZ, pled guilty to three counts of fraud. Dolphin produces aluminum and steel castings used in military and commercial applications, to include aircraft brake parts, missile guidance fins, machine gun flash suppressors and pistol frames. An investigation determined that Dolphin failed to perform x-ray tests that are required by the applicable military specification. The specification mandates that if one or more castings fail the lot sample x-ray test, the failed parts must be rejected and the entire lot x-rayed. When the x-ray re-

vealed a defect in a casting selected for the lot sample, Dolphin employees would sometimes return the suspect part to the lot and replace it with another part until the specified lot sample was amassed. As a result, parts known to be defective were shipped to customers. Special Agent Dean Smyth, Phoenix RA, conducted the investigation with the USACIDC and the Air Force Office of Special Investigations (AFOSI).



### **Equipment Theft**

Dennis Lambert, Grant Kruger and Loyd Pilgrim, civilian Army employees at Fort McCoy, WI, were found guilty of 10 counts of conspiracy and unlawful conversion of Government property. George Pretty and David Butler were acquitted of similar charges. Lambert, Kruger and Pilgrim were given money and other items of value by Leo Anthony Piatz. In exchange, they allowed Piatz to remove military vehicles and heavy equipment from Fort McCoy. The items included TOW missile launchers, track cargo carriers, snow blowers, a Sheridan tank, a bulldozer, a 20-ton crane and forklifts. Piatz, Kruger and Pilgrim then sold, traded or provided as gifts the property taken from Fort McCoy. Special Agent Craig Adams, Minneapolis Post of

Duty (POD), conducted the investigation jointly with the FBI.



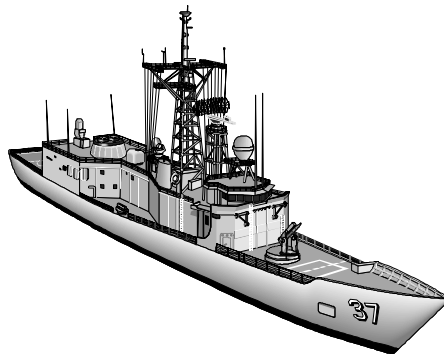
### **Fuel Overcharges**

Jacqueline Plecas, president, Med-Atlantic Petroleum Corporation (Med-Atlantic), pled guilty to making false statements, making false claims, conspiracy, income tax evasion and bankruptcy fraud. The same date, William Naldrett, vice president, Med-Atlantic, pled guilty to income tax evasion. From 1990 to 1994, Plecas and Med-Atlantic overcharged the DoD in excess of \$20 million. Plecas conspired with her subcontractors to fraudulently overcharge on Defense Fuel Supply Center contracts by overstating prices and falsifying competitive quotes. The overcharges were concealed in payments made to shell corporations and the proceeds were split between the co-conspirators. In 1994, Med-Atlantic filed for bankruptcy and Plecas made false statements in that proceeding. Between 1990 and 1992, Naldrett shared in the profits of the overcharges and received \$207,800 that he did not claim on his tax returns. Special Agent Kenneth Siegler, New York RA, conducted the investigation with

the IRS and the Naval Criminal Investigative Service (NCIS).

### **Gratuities**

Howard Minter, a former Navy captain and former vice president of Marine Carriers USA, Incorporated (Marine Carriers), pled guilty to four counts of receipt of unlawful gratuities. During 1991 and 1992, Minter, in connection with a business relationship between Med-Atlantic and Marine Carriers, accepted nearly \$17,000 in cash, a check and property from Med-Atlantic representatives. In return, Minter allowed Med-Atlantic to act as a broker for refueling of 10 ready-reserve ships activated during the Persian Gulf War by the Department of Transportation Maritime Administration. At that time the ships came under the jurisdiction of the U.S. Navy Military Sealift Command. Special Agent Kenneth Siegler, New York RA, conducted the investigation with the IRS and the NCIS.



### **Embezzlement**

Teasa Hutchins, Jr., Temple Hills, MD, pled guilty to one count of embezzlement and theft of public money. Hutchins was a civilian military pay supervisor for the Finance and Accounting Office, Military District of Wash-

ington, Fort Myer, VA.

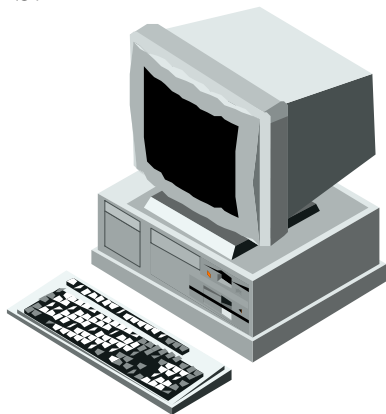
Hutchins admitted to defrauding the U.S. Government by embezzling approximately \$169,000 and converting the monies for personal use. He subsequently fled to avoid prosecution and, before being arrested, spent approximately \$10,000 of the approximately \$52,000 under his control that he had previously agreed to pay back to the Government. Through partial payments, Hutchins has repaid the Government approximately \$47,000 and has agreed to apply the proceeds of the sale of his real and personal property toward full restitution. Hutchins is scheduled for sentencing on September 19, 1997. Special Agent Peter Agustin, Mid-Atlantic Field Office (FO), conducted the investigation with the USACIDC.

### **Sentences**

#### **Kickbacks**

Nicholas Montgomery, Philadelphia, PA, former meat manager for Thriftway Supermarket, was sentenced to 8 months community confinement in a halfway house, 8 months home detention, 3 years probation and a \$3,500 fine. Montgomery previously pled guilty to mail fraud and filing a false tax return. An investigation disclosed that Montgomery received kickbacks from a salesman for Butler Foods, Philadelphia, PA, in return for ordering products from that company. The kickbacks for the period 1992 to 1995 totaled nearly \$34,000. In a related case, Gershon Cohen pled guilty to three counts of fil-

ing a false tax return. Cohen, a salesman for Butler Foods, paid kickbacks to a number of Thriftway Supermarket meat managers in exchange for the purchase of meat from Butler Foods. Cohen also received a cash salary from Butler Foods that he did not claim on his tax returns. The investigation continues into alleged bribery and kickback payments to commercial and DoD food managers by representatives of Butler Foods. Special Agent Heather Zimmerman, Northeast FO, conducted these investigations jointly with the FBI and the IRS.



### **Computer Theft**

William D. Smith, Granite City, IL, was sentenced to 4 months home confinement, 2 years probation and a \$50 special assessment. Smith previously pled guilty to one count of interstate transportation of stolen property. As a former computer technician for Inter-Lock Resources, Incorporated, Smith stole a Mitsubishi sublimation full color printer from DoD contractor McDonnell Douglas Corporation. The printer, valued at \$18,000, was then transported from Missouri to Illinois and subsequently sold. Special Agent

Patrick Reidy, Central FO, conducted the investigation with the FBI.

### **Tax Evasion**

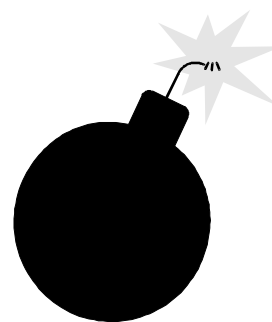
Denis Neill was sentenced in the District of Columbia to 15 months incarceration, 12 months supervised release, a \$200,000 fine and the cost of incarceration and supervised release. Neill was previously convicted of filing a false tax return. At the time of the illegal activity, Neill was a lobbyist and an attorney. As a lobbyist, he represented major U.S. corporations, which included Top 100 DoD contractors and foreign governments.

Through an elaborate web of international corporations and bank accounts, Neill transferred large sums of money to evade paying taxes on taxable earnings. Some of the laundered funds were used to improperly influence the appropriations process relating to the DoD budget. The scheme involved increasing the DoD budget by \$40 million to purchase anti-aircraft missiles. Special Agent Raymond Smith, Mid-Atlantic FO, conducted the investigation with the IRS, the FBI and the Agency for International Development.

### **Kickbacks**

Joel Azeff, former meat manager for Thriftway Supermarket, was sentenced to 6 months home detention, 3 years probation and restitution of \$3,600 for mail fraud. An investigation of Butler Foods, a DoD contractor, disclosed Azeff received kickbacks from a salesman of Butler Foods, Philadelphia, PA, in return for ordering products from that

company. The investigation is continuing into additional bribery and kickback payments by representatives of Butler Foods to commercial and DoD food managers. Special Agent Heather Zimmerman, Northeast FO, conducted the investigation jointly with the FBI and the IRS.



### **Bomb Threats**

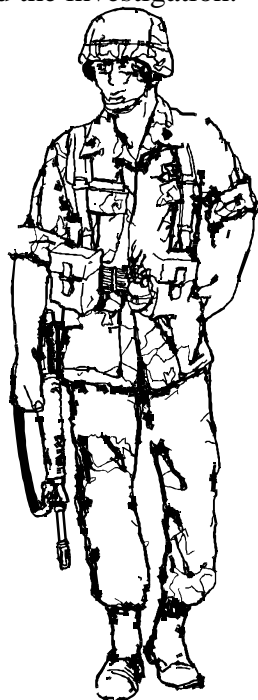
David C. Soliday was sentenced to 6 months home confinement, 2 years supervised probation, restitution of \$1,883.74 and a \$100 special assessment fee for making false statements. On three occasions, Soliday, a police officer at the Defense Supply Center Columbus, falsely reported bombs or threats of bombs. On two of those occasions multiple jurisdictional fire departments responded. Soliday also made another call and communicated an additional threat to kill law enforcement officials in a bombing attack. Special Agent Valerie Van Meter, Columbus RA, conducted the investigation.

### **Fraudulent Enlistment**

Douglas MacArthur Griffin was sentenced to 12 months in prison, 2 years probation and ordered to pay a \$50 special assessment fee for making a false representation to the Government. Griffin misrepresented his true identity, including his name



and Social Security Number, to enlist in and enter the U.S. Army. He received approximately \$28,914 in entitlements from the Army. Griffin also established a bank account with the false identity and caused the Defense Finance and Accounting Service to electronically deposit money into his bank account. Special Agent Troy Bird, Kansas City RA, conducted the investigation.



### **Health Care**

Dianna Lambert, former employee of Big Creek, War, WV, was sentenced to 13 months in prison, 36 months probation, ordered to pay \$20,000 in restitution and a \$50 special assessment fee. Lambert previously pled guilty to mail fraud. The Big Creek ambulance service operated under Quality and submitted health care provider claims to CHAMPUS and to Medicaid. Lambert and others participated in a scheme to defraud health care programs by invoicing for medically unnecessary ambulance

runs, ambulance trips without the required qualified personnel and ambulance trips that did not occur. Special Agent James Walker, Pittsburgh POD, conducted this investigation jointly with the West Virginia OIG, Medicaid Fraud Control Unit, Charleston, WV, and the West Virginia State Police, Bureau of Criminal Investigations.



### **Surety Bonds**

MGA Bonding and Assurance Services (MGA Bonding), Phoenix, AZ, and Joel Wisse and David Novick, MGA Bonding, were sentenced as follows: MGA Bonding to 5 years probation and a \$200 special assessment fee; Wisse to 180 days home confinement, 4 years probation, 200 hours community service, \$25,000 restitution and a \$25 special assessment fee; Novick to 5 years probation, 300 hours community service, \$25,000 in restitution and a \$100 special assessment fee. The parties are also jointly and separately liable for an additional \$200,000 in restitution. Wisse previously pled guilty to conspiracy; Novick and MGA Bonding previously pled guilty to submitting a false statement. An investigation disclosed that Wisse conspired to submit false statements and Novick and MGA Bonding submitted false state-

ments in support of individual surety affidavits for bid, payment and performance bonds. The bonds were used for construction contracts on DoD military installations throughout the country. Wisse, Novick and MGA Bonding have been debarred by the U.S. Army Procurement Fraud Division. Special Agent Jeffery Arsenault, Phoenix RA, conducted the investigation with the FBI, the USACIDC and the AFOSI.

### **Civil Settlement Painting**

Holmes and Narver Construction Services, Incorporated (Holmes and Narver), entered into a settlement agreement to pay \$690,000 to the Government. The settlement resolves charges of false statements and false claims relating to construction contracts at the Aberdeen Proving Ground (APG), Aberdeen, MD. Holmes and Narver was the prime contractor for painting and maintenance contracts at the "Patriot Village" housing project and other sites at APG. The company and its subcontractors failed to paint the contract specified three coats of paint on more than 100 buildings. The incomplete work was concealed and then billed to the Government, which subsequently paid Holmes and Narver for the overstated expenses for labor costs, materials and supplies. Administrative action against the company and its employees is pending. Special Agent Harry Armstrong, Baltimore POD, conducted the investigation with the FBI and the USACIDC.



*To report suspected fraud involving to Department of Defense or to comment on this newsletter please contact the nearest Defense Criminal Investigative Service office. The addresses and telephone numbers of the offices that are part of the Central Field Office are listed below.*

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Des Plaines, IL 60018-4606  
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Telefax: (847) 827-3724  
E-Mail: 40ch@dodig.osd.mil

**CLEVELAND Resident Agency**  
7550 Lucerne, Suite 200  
Islander Park One Building  
Middleburg Heights, OH 44130  
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Telefax: (216) 522-7196  
FTS: 942-2296/7  
E-Mail: 40cl@dodig.osd.mil

**COLUMBUS Resident Agency**  
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Whitehall Branch,  
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Physical Location:  
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3990 E. Broad St., Bldg. 100  
Columbus, OH 43213-5000  
Voice: (614) 692-3629/3855  
Telefax: (614) 231-8905  
E-Mail: 40co@dodig.osd.mil

**DAYTON Resident Agency**  
3055 Kettering Blvd.  
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Dayton, OH 45439  
Voice: (937) 534-0100  
Telefax: (937) 534-0117  
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**KANSAS CITY Resident Agency**  
Federal Building, Room 565  
500 State Street  
Kansas City, KS 66101-2433  
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**INDIANAPOLIS Post of Duty**  
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8899 East 56th Street  
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Fax: (317) 542-4012  
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**MILWAUKEE Post of Duty**  
301 W. Wisconsin Ave.  
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Milwaukee, WI 53203  
Voice: (414) 297-1810  
Telefax: (414) 297-1817  
E-Mail: 40ml@dodig.osd.mil  
**MINNEAPOLIS Post of Duty**

**Galtier Plaza, Box 14, Suite 414**  
175 East Fifth Street  
St. Paul, MN 55101-2901  
Voice: (612) 222-0212  
Telefax: (612) 222-8316  
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**SIOUX FALLS Post of Duty**  
230 S. Phillips Ave., Suite 404  
Sioux Falls, SD 57102  
Voice: (605) 330-4211  
Telefax: (605) 330-4410  
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**WICHITA Post of Duty**  
53456 Lawrence Ct. Suite 230  
McConnell AFB, KS 67221  
Voice: (316) 682-1991  
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Washington, DC 20301-1900  
Voice: (800) 424-9098  
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